

REPORT OF EXAMINATION
MSC LIFE INSURANCE COMPANY

Spokane, Washington

As of December 31, 1996



Participating States:
Washington

MSC Life Insurance Company

CHIEF EXAMINER AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of MSC LIFE INSURANCE COMPANY of Spokane, Washington. This report shows the financial condition and related corporate matters as of December 31, 1996.

JAMES T. ODIORNE, CPA
DEPUTY COMMISSIONER
FOR COMPANY SUPERVISION
ACTING CHIEF EXAMINER

2/27/98
(Date)

MSC Life Insurance Company

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Seattle, Washington
December 2, 1997

The Honorable Deborah Senn, Commissioner
Washington Department of Insurance
Insurance Building
P.O. Box 40255
Olympia, WA 98504-0255

Dear Commissioner:

In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

MSC LIFE INSURANCE COMPANY

of

Spokane, Washington

hereinafter referred to as MSC Life or the "Company," at its home office located at 3900 East Sprague, Spokane, Washington 99202. This report is respectfully submitted showing the condition of the Company as of December 31, 1996.

SCOPE

The examination covers the period June 1, 1992 through December 31, 1996 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Insurance Code and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination. Additionally, the examiners reviewed and utilized the work papers prepared by the Company's independent auditors to the extent possible.

MSC Life Insurance Company

INSTRUCTIONS

The examiners reviewed the Company's filed 1996 Annual Statement as part of the statutory examination. The review focused on determining if the Company's Annual Statement was completed in accordance with the Annual Statement Instructions published by the National Association of Insurance Commissioners. The following summarizes the exceptions noted in performing this review and the Company is instructed to correct and comply in future Annual Statement filings, per RCW 48.05.250:

1. Securities in Trust

The custodial agreement does not include the required provisions for indemnifying the Company for lost securities, and thus, does not conform to the standards set forth by the NAIC. The Company is instructed to revise its custodial agreement to comply with NAIC guidelines, RCW 48.05.250, and WAC 284-07-050.

2. Bonds

The examiners reviewed the supporting records pertaining to the 1996 bond acquisitions and it was noted that the Company did not maintain a written record in permanent form showing authorization by an officer of the Company in the acquisition of securities, as required by RCW 48.13.350. The Company is instructed to maintain a written record, in permanent form, showing authorization by an officer of the Company in the acquisition of securities, as required by RCW 48.13.350.

3. Intercompany Agreements

All management agreements must be submitted in writing for approval by the Insurance Commissioner. The Company is instructed to formally draft an intercompany agreement with MSC Service Corporation and file the contract with the Office of Insurance Commissioner, per RCW 48.31B.030(1)(b)(iv).

RECOMMENDATIONS

The examination developed no comments or recommendations calculated to prevent non-compliance in the future.

MSC Life Insurance Company

HISTORY

MSC Life Insurance Company was incorporated and commenced business on June 1, 1992, as a stock life insurance company, under the laws of the state of Washington. The Company is a wholly-owned subsidiary of Medical Service Corporation of Eastern Washington (MSC), a health care service contractor domiciled in the state of Washington. In November 1994, MSC joined Blue Cross of Washington and Alaska (BCWA), through the formation of PREMERA, a new Washington nonprofit corporation. PREMERA is the ultimate parent and the sole voting member of MSC and BCWA.

MANAGEMENT

The Bylaws vest all corporate powers and control of the business affairs of the Company in a Board of Directors, consisting of five (5) directors. Not less than three-fourths of the Board of Directors shall be United States citizens, as required by RCW 48.07.050. Directors of the Company need not be citizens of the state of Washington nor shareholders of the corporation. The operations of the Company are under the control of the Company's President, Henry F. Keaton, Jr., who was hired in 1995 to replace Fred Jacot. Mr. Keaton came from Chicago, Illinois, where he directed Midwest regional operations for MetroHealth, directed shared services for the Chicago Hospital Council, and was the founding President of COMPASS Health Care Plans.

The following directors and officers are serving the Company as of December 31, 1996:

Officers:

Henry Frost Keaton, Jr.	President
Thomas William Colosimo	Secretary/Treasurer

Directors:

<u>Name</u>	<u>Principal Occupation</u>
Henry Frost Keaton, Jr.	President, MSC
John Edward Carlson	Senior Vice President, MSC
Thomas William Colosimo	Vice President - Finance, MSC
James H. Watts III, MD	Physician, Obstetrics and Gynecology
Brent Thomas Stanyer	Associate Counsel, MSC

AFFILIATED COMPANIES

PREMERA

PREMERA is the ultimate parent company of MSC Life Insurance Company. Effective November 21, 1994, after receiving appropriate regulatory approvals, MSC and BCWA formed PREMERA, an upstream nonprofit Washington holding company, organized under RCW 24.06. PREMERA is the sole voting member of MSC and BCWA.

MSC Life Insurance Company

In 1994, MSC Life Insurance Company entered into an Intercorporate Tax Sharing Agreement to file consolidated federal income tax returns with its parent company MSC, its affiliate BCWA, and its ultimate parent company, PREMERA. According to the terms of the agreement, each member's tax liability would be equal to what would be calculated under a separate return method.

Medical Service Corporation of Eastern Washington

Medical Service Corporation of Eastern Washington is the parent company of MSC Life Insurance Company. MSC is a nonprofit Washington corporation organized under RCW 24.03 of the Washington Non-Profit Corporations Act and is licensed as a domestic health care service contractor under RCW 48.44.

In June 1992, MSC Life Insurance Company entered into a Financial Management Agreement, allowing MSC to act as an investment advisor and portfolio manager. Under the terms of the agreement, MSC provides financial management, asset and investment management services, which considers strategic, operational, and financial issues. The Company grants MSC the right to assign part or all of its duties under this agreement to an investment advisor(s).

Effective July 1, 1992, MSC Life Insurance Company entered into an Insurance Services Agreement to provide MSC stop loss reinsurance for self-funded groups, associations, and trusts that have group health care service contracts with MSC. Under the terms of the agreement, the Company retains MSC to provide underwriting, claims administration, and administrative management services with respect to the stop loss reinsurance business.

MSC Service Corporation

MSC Service Corporation (MSCSC) is an affiliated company of MSC Life Insurance Company and is wholly-owned by MSC. MSCSC is a for-profit Washington corporation that provides certain administrative services for MSC.

Blue Cross of Washington and Alaska

Blue Cross of Washington and Alaska is an affiliated company of MSC Life Insurance Company. BCWA is a Washington domiciled nonprofit corporation, licensed as a health care service contractor. BCWA is engaged in the business of providing prepaid health care coverage to its subscribers in the states of Washington and Alaska.

MSC Life Insurance Company

CAPITAL AND SURPLUS

MSC Life Insurance Company has 250,000 authorized shares of \$10 par value, voting, common stock. As of December 31, 1996, 240,000 shares of common stock were outstanding, with a value of \$2,400,000. Additional Gross Paid In and Contributed Surplus was \$2,769,664. The total paid in capital stock and additional surplus equaled \$5,169,664, exceeding the minimum requirements set forth in RCW 48.05.340. The outstanding shares are wholly-owned by Medical Service Corporation of Eastern Washington.

CORPORATE RECORDS

The examiners reviewed the corporate records of MSC Life Insurance Company for the period under examination. All Board meetings were conducted with a quorum present. The Board members ratified all changes to the Articles of Incorporation and Bylaws.

ACCOUNTING RECORDS AND PROCEDURES

The Company maintains their accounting records on a GAAP modified accrual basis of accounting and adjust to Statutory Accounting Practices (SAP) basis for Annual Statement reporting. The Company is audited annually by the Certified Public Accountants, Ernst and Young, LLP, and issued an Unqualified Opinion for the year ending December 31, 1995.

INTERNAL SECURITY

Conflict of Interest

MSC Life Insurance Company has a policy statement and questionnaires to disclose conflicts of interest in which all directors, officers, and key employees are required to sign annually. No exceptions were disclosed for the period under examination.

Fidelity Bond and Other Insurance

The Company is a named insured on an extensive portfolio of insurance which appears to cover against all catastrophe and other losses. Sedgwick James of Washington is the Company's insurance broker as well as for PREMIER and its affiliates. All policies listed below are annually renewable in July. The policies reviewed were for the policy year July 1, 1996 through July 1, 1997. The NAIC suggested minimum amounts of fidelity insurance were calculated at a minimum of \$700,000. The Company carries \$3 million of fidelity insurance coverage which is more than adequate to meet the minimum requirements.

MSC Life Insurance Company

Aetna Life and Casualty

Commercial Property

Includes personal business property and buildings both at replacement cost with a \$250 deductible. In addition, extra expense coverage is maintained to cover expenses incurred during any Aperiod of restoration≡ with a \$1,000 deductible.

Commercial General Liability

Products/completed operations aggregate	\$2,000,000
General aggregate	2,000,000
Bodily injury and property damage liability (any one occurrence)	1,000,000
Fire damage liability (any one fire)	50,000
Personal and advertising injury liability	1,000,000
Medical payments (any one person)	5,000

Commercial Inland Marine

Signs	\$17,500
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A deductible amount of 5% of the limit of the insurance for each sign applies.

Commercial Excess Liability Umbrella Insurance Policy

Products/completed operations aggregate	\$5,000,000
General aggregate	5,000,000
Bodily injury and property damage liability (any one occurrence)	5,000,000
Personal and advertising injury liability	5,000,000
Retained limit (any one occurrence or offense)	10,000

Business Auto Policy

Liability	\$1,000,000
Auto medical payments (per insured)	5,000
Uninsured motorist (per accident)	1,000,000
Underinsured motorist	1,000,000
Comprehensive (\$250 deductible)	25,000
Collision (\$500 deductible)	25,000

Fiduciary Liability

Aetna underwrites fiduciary liability coverage for the Company=s various employee pension, savings, and other benefit plans. The following summarizes the policy limits and deductibles:

Annual Aggregate Limit (Including defense costs, charges and expenses)	\$3,000,000
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Deductible each claim (applicable to defense costs, charges, and expenses)	\$10,000
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Note: Mutual Benefit Life Insurance Company (MBL), which is in receivership by the New Jersey Department of Insurance, has been excluded in an endorsement. The Company=s deferred compensation plan is invested in MBL.

MSC Life Insurance Company

TERRITORY AND PLAN OF OPERATIONS

MSC Life Insurance Company is incorporated and domiciled as a stock life insurance company in the state of Washington. The principal place of business is Spokane, Washington. The Company exclusively underwrites group stop loss coverage for self-insured employer health plans administered by its parent company, Medical Service Corporation of Eastern Washington.

EDP SYSTEMS AND OPERATIONS

MSC Life Insurance Company has entered into an Insurance Services Agreement with its parent, MSC, which includes the use of MSC's Electronic Data Processing (EDP) system. MSC's systems and program development controls were examined to gain assurance that programs and systems are designed, tested, approved and implemented using appropriate controls. The controls appear to be adequate.

Operations, processing, and documentation controls were reviewed to determine the type of hardware employed, the operating systems and proprietary software used, back up and recovery facilities employed, and the controls exercised to maintain data security. During 1997, MSC plans to develop and implement a disaster recovery plan that will be common with its parent, PREMIER.

Controls over the usage of LAN's and personal computers were reviewed. The system controls and procedures appear to be adequate.

GROWTH OF COMPANY

The following schedules reflect the growth of the Company by year beginning in 1992. The amounts shown were compiled from the Company's Annual Statements:

Schedule 1

	Admitted		Capital &
<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
1996	\$7,180,616	\$193,313	\$6,987,303
1995	6,731,980	417,494	6,314,486
1994	6,184,515	330,277	5,854,238
1993	5,998,262	483,605	5,514,657
1992	5,386,585	148,408	5,238,177

MSC Life Insurance Company

Schedule 2

	Net Premium	Net Investment	A & H Policy	General
<u>Year</u>	<u>Written</u>	<u>Income</u>	<u>Benefits</u>	<u>Expenses</u>
1996	\$707,277	\$417,070	\$364,410	\$38,571
1995	660,638	383,158	247,171	41,342
1994	563,720	351,471	367,021	36,957
1993	566,869	329,378	457,341	32,323
1992	34,088	195,029	0	13,318

REINSURANCE

During 1996, MSC Life Insurance Company ceded \$27,025 of group A&H premiums to Reliastar Life Insurance Company (RLIC) of Minneapolis, Minnesota, providing the following coverage:

Eligible Inpatient Hospital Services and Eligible Physician Services
\$500,000 of the loss for each member of the plan
50,000 deductible of the loss of each member of WA Basic Health Plan
75,000 deductible of the loss of each member of Medicare

The maximum reinsurance coverage payable under this agreement, during any agreement year, for Eligible Inpatient Hospital Services and Eligible Physician Services shall be \$1,000,000. The maximum lifetime reinsurance coverage payable under this agreement for Eligible Inpatient Hospital Services and Eligible Physician Services for each Medicare Member shall be \$2,000,000.

RLIC is an authorized reinsurer in the state of Washington.

SUBSEQUENT EVENTS

No material events subsequent to the examination date were noted which would have a significant effect in the financial condition of MSC Life Insurance Company.

MSC Life Insurance Company

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of MSC Life Insurance Company as of December 31, 1996:

- Statement of Assets, Liabilities, Surplus and Other Funds
- Summary of Operations
- Comparative Statement of Assets, Liabilities, Surplus and Other Funds
- Comparative Summary of Operations
- Five Year Reconciliation of Surplus

No examination adjustments or reclassifications were required for the examination financial statements.

MSC LIFE INSURANCE COMPANY
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 1996

	Balance Per Company	Ref.	Examination Adjustments	Balance Per Examination
ASSETS				
Bonds	\$ 6,781,924	2		\$ 6,781,924
Cash	<u>220,395</u>			<u>220,395</u>
Subtotals, cash and invested assets	7,002,319		0	7,002,319
Accident and health premiums due and unpaid	70,773			70,773
Investment income due and accrued	<u>107,524</u>			<u>107,524</u>
Total Assets	<u>\$ 7,180,616</u>		<u>0</u>	<u>\$ 7,180,616</u>
LIABILITIES				
Aggregate reserve for accident and health policies	\$ 5,000	3		\$ 5,000
Interest maintenance reserve	36,897			36,897
General expenses due or accrued	5,113			5,113
Taxes, licenses and fees due or accrued, excluding federal income taxes	3,415			3,415
Federal income taxes due or accrued	120,369			120,369
Asset valuation reserve	13,912			13,912
Payable to parent, subsidiaries and affiliates	<u>8,607</u>			<u>8,607</u>
Total Liabilities	193,313		0	193,313
SURPLUS AND OTHER FUNDS				
Common capital stock	<u>2,400,000</u>			<u>2,400,000</u>
Gross paid in and contributed surplus	2,769,664			2,769,664
Unassigned funds (surplus)	<u>1,817,639</u>			<u>1,817,639</u>
Total Surplus	<u>4,587,303</u>		<u>0</u>	<u>4,587,303</u>
Total Surplus and Other Funds	6,987,303		0	6,987,303
Total Liabilities, Surplus and Other Funds	<u>\$ 7,180,616</u>		<u>0</u>	<u>\$ 7,180,616</u>

MSC LIFE INSURANCE COMPANY
Summary of Operations
For the Year Ended December 31, 1996

	Balance Per Company	Ref.	Examination Adjustments	Balance Per Examination
Premiums and annuity considerations	\$ 707,277			\$ 707,277
Net investment income	417,070	4		417,070
Amortization of interest maintenance reserve	<u>15,180</u>			<u>15,180</u>
Totals	1,139,527		0	1,139,527
Disability benefits and benefits under accident and health policies	364,410			364,410
Increase in aggregate reserves for life and accident and health policies and contracts	<u>(70,000)</u>			<u>(70,000)</u>
Totals	294,410		0	294,410
Commissions on premiums and annuity considerations	11,051			11,051
General insurance expenses	38,571			38,571
Insurance taxes, licenses and fees, excluding federal income taxes	<u>17,599</u>			<u>17,599</u>
Totals	<u>361,631</u>		0	<u>361,631</u>
Net gain from operations before dividends to policyholders and federal income taxes	777,896		0	777,896
Dividends to policyholders	<u>0</u>			<u>0</u>
Net gain from operations after dividends to policyholders and before federal income taxes	777,896		0	777,896
Federal income taxes incurred	<u>117,814</u>			<u>117,814</u>
Net gain from operation after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	660,082		0	660,082
Net realized capital gains or (losses) less capital gains tax and transferred to the IMR	<u>0</u>			<u>0</u>
Net Income	<u>\$ 660,082</u>		<u>0</u>	<u>\$ 660,082</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>				
Capital and surplus, December 31, prior year	\$ 6,314,486			\$ 6,314,486
Net income	660,082		0	660,082
Change in nonadmitted assets and related items	5,354			5,354
Change in asset valuation reserve	<u>7,381</u>			<u>7,381</u>
Net change in capital and surplus for the year	672,817		0	672,817
Capital and surplus, December 31, current year	<u>\$ 6,987,303</u>		<u>0</u>	<u>\$ 6,987,303</u>

MSC LIFE INSURANCE COMPANY
Comparative Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31,

	1996	1995
ASSETS		
Bonds	\$ 6,781,924	\$ 6,141,627
Cash	220,395	426,409
Subtotals, cash and invested assets	7,002,319	6,568,036
Accident and health premiums due and unpaid	70,773	65,823
Investment income due and accrued	107,524	98,121
Total Assets	\$ 7,180,616	\$ 6,731,980
LIABILITIES		
Aggregate reserve for accident and health policies	\$ 5,000	\$ 75,000
Interest maintenance reserve	36,897	39,527
General expenses due or accrued	5,113	3,798
Taxes, licenses and fees due or accrued, excluding federal income taxes	3,415	3,958
Federal income taxes due or accrued	120,369	260,461
Asset valuation reserve	13,912	21,293
Payable to parent, subsidiaries and affiliates	8,607	13,457
Total Liabilities	193,313	417,494
SURPLUS AND OTHER FUNDS		
Common capital stock	2,400,000	2,400,000
Gross paid in and contributed surplus	2,769,664	2,769,664
Unassigned funds (surplus)	1,817,639	1,144,822
Total Surplus	4,587,303	3,914,486
Total Liabilities, Surplus and Other Funds	6,987,303	6,314,486
Total Liabilities, Surplus and Other Funds	\$ 7,180,616	\$ 6,731,980

MSC LIFE INSURANCE COMPANY
Comparative Summary of Operations
For the Years Ended December 31,

	1996	1995
Premiums and annuity considerations	\$ 707,277	\$ 660,638
Net investment income	417,070	383,158
Amortization of interest maintenance reserve	15,180	19,059
Totals	<u>1,139,527</u>	<u>1,062,855</u>
Disability benefits and benefits under accident and health policies	364,410	247,171
Increase in aggregate reserves for life and accident and health policies and contracts	(70,000)	35,000
Totals	<u>294,410</u>	<u>282,171</u>
Commissions on premiums and annuity considerations	11,051	9,878
General insurance expenses	38,571	41,342
Insurance taxes, licenses and fees, excluding federal income taxes	17,599	16,055
Totals	<u>361,631</u>	<u>349,446</u>
Net gain from operations before dividends to policyholders and federal income taxes	777,896	713,409
Dividends to policyholders	0	0
Net gain from operations after dividends to policyholders and before federal income taxes	777,896	713,409
Federal income taxes incurred	117,814	260,461
Net gain from operation after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	660,082	452,948
Net realized capital gains or (losses) less capital gains tax and transferred to the IMR	0	0
Net Income	<u><u>\$ 660,082</u></u>	<u><u>\$ 452,948</u></u>

MSC LIFE INSURANCE COMPANY
Five Year Reconciliation of Surplus
As of December 31,

	1996	1995	1994	1993	1992
<u>CAPITAL AND SURPLUS ACCOUNT</u>					
Capital and surplus, December 31, prior year	\$ 6,314,486	\$ 5,854,238	\$ 5,514,657	\$ 5,238,177	0
<u>GAINS AND (LOSSES) IN SURPLUS</u>					
Net income	660,082	452,948	335,713	261,588	123,261
Change in nonadmitted assets and related items	5,354	5,950	4,752	5,353	(23,450)
Change in asset valuation reserve	7,381	1,350	(884)	9,539	(31,298)
Capital changes:					
Paid in					2,400,000
Surplus adjustment:					
Paid in					<u>2,769,664</u>
Net change in capital and surplus for the year	<u>672,817</u>	<u>460,248</u>	<u>339,581</u>	<u>276,480</u>	<u>5,238,177</u>
Capital and surplus, December 31, current year	<u>\$ 6,987,303</u>	<u>\$ 6,314,486</u>	<u>\$ 5,854,238</u>	<u>\$ 5,514,657</u>	<u>\$ 5,238,177</u>

MSC Life Insurance Company

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

- A. Basis of presentation
The financial statements included herein have been prepared in accordance with accounting practices prescribed or permitted by the Office of Insurance Commissioner of the state of Washington and with the NAIC Financial Examiners Handbook.
- B. Investments
Investments are valued based on the National Association of Insurance Commissioners' Valuation of Securities. Bonds are valued at lower amortized cost or investment value.
- C. Underwriting expense
Underwriting costs such as commissions and general insurance expenses are written off in the year incurred and not deferred and amortized against future earnings.
- D. Non-admitted assets
Certain assets designated as "non-admitted," which consist of organizational costs, were excluded from the balance sheet. The non-admitted assets are reflected as direct adjustments from net worth. The total non-admitted assets as of December 31, 1996 amounted to \$2,042.
- E. Income Taxes
Taxable income differs from statutory income due to capitalization of policy acquisition expenses, discounting of policy reserves, and utilization of net operating loss and carry forward tax credit.
- F. Reinsurance
Accruals and reserves for accident and health policies, premium revenues, and policy benefits are reported net of reinsurance in the financial statements.

2. Bonds

Amortization of bond discounts and premiums are accrued using the effective interest method over the remaining term of the bonds. The statement value, unrealized gains and losses, estimated market values, and acquisition cost of securities held for investment as of December 31, 1996 were as follows:

MSC Life Insurance Company

	Amortized Value	Unrealized Gains/ (Losses)	Market Value	Actual Cost
Government	\$5,413,026	\$74,358	\$5,338,668	\$5,483,424
Special Revenue	199,187	(2,813)	202,000	198,576
Public Utilities	381,990	(24,510)	406,500	406,134
Industrial & Misc.	<u>787,721</u>	<u>(16,339)</u>	<u>804,060</u>	<u>814,449</u>
Total	<u>\$6,781,924</u>	<u>\$30,696</u>	<u>\$6,751,228</u>	<u>\$6,902,583</u>

The maturity distribution of all bonds owned as of December 31, 1996 was as follows:

	Amortized Value	Percent of Portfolio
Due in one year or less	\$644,646	9.5%
Due over one year through five years	1,149,651	17.0%
Due over five years through ten years	4,435,826	65.4%
Due over ten years through twenty years	375,058	5.5%
Over twenty years	<u>176,743</u>	<u>2.6%</u>
Total	<u>\$6,781,924</u>	<u>100.0%</u>

The Securities Valuation Office classification distribution as of December 31, 1996 was as follows:

	Amortized Value	Percent of Portfolio
Class 1	\$6,781,924	100.0%
Total	<u>\$6,781,924</u>	<u>100.0%</u>

3. Aggregate reserve for accident and health policies

Accident and health contracts had the following reserve components for the year ending December 31, 1996:

Accident and health policies	<u>\$5,000</u>
Total reserve	<u>\$5,000</u>

4. Net Investment Income

The following is a summary of net investment income earned for the year ending December 31, 1996:

Bonds	\$405,141
Cash on hand and on deposit	11,724
Short-term investments	<u>11,788</u>
Gross investment income	428,653
Investment expenses	<u>(11,583)</u>
Net Investment Income	<u>\$417,070</u>

ACKNOWLEDGMENT

MSC Life Insurance Company

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of MSC Life Insurance Company during the course of this examination.

In addition, acknowledgment is made of the participation in the work and preparation to this report by John R. Jacobson, AFE, Examiner-in-Charge; Michael V. Jordan, CPA, CFE; Joseph I. Manning, CPA, CFE; Leman McLean, CPA, CFE, FLMI; all from the Washington Insurance Commissioner's Office.

MSC Life Insurance Company

AFFIDAVIT

STATE OF WASHINGTON)
)ss
COUNTY OF KING)

John R. Jacobson, AFE, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of MSC Life Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Office of Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

John R. Jacobson, AFE
Examiner-in-charge
State of Washington

Subscribed and sworn to before me this 15th day of December, 1997.

Notary Public in and for the
State of Washington, residing
in Seattle.